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SUPPORT

FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

Audit reports

Report of the Administrator

SUMMARY

This document contains the comments of the Administrator concerning the report of the United Nations Board of Auditors on the financial statements of the United Nations Development Programme for the year ending 31 December 1989. In particular, it provides further information on follow-up action taken in response to Governing Council decision 90/48 of 22 June 1990 and General Assembly resolution 45/235 of 21 December 1990.

Document DP/1991/52 summarizes the action taken by the executing agencies in response to the significant observations of their external auditors on their 1989 accounts relating to funds allocated to them by the United Nations Development Programme. Document DP/1991/52/Add.1 contains the audited reports of the executing agencies as at 31 December 1989.

INTRODUCTION

1. In accordance with previous Governing Council decisions, as well as General Assembly resolution 45/235 of 22 December 1990, the Administrator is bringing to the attention of the Council the audit report of the United Nations Development Programme (UNDP), 1/ the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) thereon, 2/ the related comments made in the Fifth Committee and the resolution adopted by the General Assembly at its forty-fifth session on financial reports and audited financial statements, and reports of the Board of Auditors (General Assembly resolution 45/235).

2. The external audit reports and audited accounts of executing agencies relating to funds allocated to them by UNDP as at 31 December 1989, submitted in accordance with regulation 17.1 of the UNDP Financial Regulations, are contained in document DP/1991/52/Add.1, together with a summary of the status of funds submitted by all executing agencies as at 31 December 1989. Document DP/1991/52 summarizes significant observations of the external auditors of the executing agencies on their 1989 accounts relating to funds allocated to them by UNDP.

3. The Administration provided a detailed written response to all the observations made by the United Nations Board of Auditors in its report. Those comments are included in the report of the Board of Auditors. 1/

4. The audit report included numerous findings in the areas of accounts, budgetary control, programme management, personnel management, other trust funds, and other miscellaneous matters. The auditors qualified their opinion on the UNDP financial statements for 1989 as a result of several of their findings. The two remaining qualifications relate to the receipt of audited statements from executing agencies and governments on programme expenditure. These have been the subject of a qualification of UNDP accounts since 1986.

5. Owing to the length of the audit report and the extensive response by the Administration, no attempt will be made in the present document to summarize their contents. This document highlights, in tabular format, those observations which have led to a qualification of the audit opinion and other observations which relate to matters of particular concern to the Governing Council and which the Council will no doubt wish to take into account in its future consideration of the subjects concerned. It also summarizes the results of the review of the audit report by ACABQ and by the Fifth Committee; it refers to discussions of matters arising from the audit at the Panel of Auditors and at the Consultative Committee on Administrative Questions (Finance and Budgetary Questions (CCAQ(FB)) as appropriate; and it indicates significant actions subsequently taken by the Administration in response to the reports and the relevant paragraphs of General Assembly resolution 45/235 which have a direct impact on UNDP. Information on further follow-up which may be available by June 1991 will be reported orally to the Council at its thirty-eighth session.

6. In its decision 45/235, the General Assembly requested the External Auditors to submit to the General Assembly at its forty-sixth session, through the Administrative Committee on Co-ordination (ACC) and ACABQ, an interim study on concrete issues to be resolved through the development of appropriate accounting principles and standards for consistent application in the United Nations system, taking into account the feasibility and benefits of such principles as well as the major problems to be addressed in this regard. The Administrator fully supports this initiative in that the establishment of such standards would provide a common framework for the United Nations system which will facilitate the work of all organizations, the auditors, the Fifth Committee and the Budget and Finance Committee.

SUMMARY OF AUDIT COMMENTS

Financial report and audited statements for the year ended 31 December 1989 (document A/45/5/Add.1)	Report of the Advisory Committee on Administrative and Budgetary Questions (document A/45/570)	Summary of discussions in the Fifth Committee	Comments by the Administration
I. AUDIT OF PROGRAMME EXPENDITURE BY UNITED NATIONS EXECUTING AGENCIES			
[Paragraphs 58 and 59 of the above report]			
The Board of Auditors have stated that it did not receive sufficient audited statements from executing agencies to allow it to express an unqualified opinion on programme expenditure and programme support costs reported by UNDP.	ACABQ expressed its concern that the Board had qualified its opinion in this regard since 1986 and indicated that it trusted that the new procedure of biennial auditing of UNDP accounts would address and rectify the situation.	Members of the Fifth Committee urged the Administration to intensify its efforts to correct or improve the conditions that gave rise to the qualification of audit opinion of the Board of Auditors.	The Administration is greatly concerned about the qualification of its accounts and has stressed to the executing agencies the significance placed on it by the Governing Council and the General Assembly. Executing agencies have made significant efforts to comply. It is important to note that the time frame for closure of the accounts and their audit is tight. Systems and procedures are being reviewed with the aim of speeding up the closure process.
II. AUDIT OF AND ACCOUNTING FOR GOVERNMENT-EXECUTED PROGRAMME EXPENDITURE			
[Paragraphs 60 to 64 of the above report]			
The Board recognized the major improvements compared to prior years; however, it noted that the coverage of approximately 23 per cent of expenditure still represented a limitation for the expression of an unqualified opinion. The Board further indicated that the lack of reporting prevented quantifying the overstatement of the receivables in the 1988 financial statements.	ACABQ considered this to be a serious weakness that the Administration should address vigorously, in particular, because of the trend for greater involvement by Governments in project execution. The Committee stated that further improvement is needed in the timely reporting of Governments to assess finally the outstanding balance of advances to Governments.	The Committee requested the Administrator to intensify his efforts to correct or improve the conditions that gave rise to the qualification of audit opinions of the Board of Auditors.	UNDP has made and will continue to make every effort to increase the percentage of government-executed expenditure for which audit certificates are received. It should be noted that by the end of 1990, some 70 per cent of the audit statements had been received for 1989 expenditure. UNDP continues to enhance related systems and is reviewing the feasibility of developing a system which will provide information to auditors sooner so that audits can be completed on a timely basis. Financial reports have now been received for almost all amounts outstanding as

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			advances to Governments at 31 December 1989. Significant improvement has also been made in the timeliness of receipt of reports in respect of advances made in 1990 to Governments.
	III. ISSUES REGARDING GENERALLY ACCEPTED ACCOUNTING PRINCIPLES		
[Paragraphs 66-72, 96-98, 117]			
The Board's comments covered several issues relating to the applicability of generally accepted accounting principles, including the appropriate exchange rate to be used for the preparation of UNDP statements, contingent liabilities and matters relating to cash and investment.	ACABQ shared the concerns of the Board on this subject. The Committee recommended that the General Assembly request the Panel of External Auditors to commission a study in this regard.	The Committee requested the Panel of External Auditors to submit an interim study on concrete issues to be resolved through the development of appropriate accounting principles and standards for consistent application in the United Nations system.	The Administrator fully supports the proposal of establishing system-wide accounting principles.
	IV. ACCOUNTING FOR UNLIQUIDATED OBLIGATIONS		
[Paragraphs 85-95]			
The Board continued to feel the need for UNDP to review its accounting policies for recording obligations in order to establish principles which cannot be abused. To verify proper handling of the obligations, 1989 year-end obligations were reviewed. Several procedural difficulties were identified in the Office for Project Services (OPS). The Board recommended that guidelines be issued to rectify the matter.	ACABQ recalled its request to the Board to examine the nature and extent of possible abuses in the recording of unliquidated obligations and noted the Board's findings. The Committee also noted that stricter guidelines were issued by the Administrator to minimize the problems and ensure compliance with the Financial Rules.	The Committee endorsed the observations of the Advisory Committee and the Board of Auditors.	The Administrator acknowledged the problems identified by the Auditors, noting that few, if any, abuses had been found. UNDP has issued stricter guidelines. The issue of accounting principles is still under review by the Panel of Auditors and UNDP is awaiting its recommendations.
	V. TWO-YEAR PROJECT BUDGET CYCLE CONCEPT		
[Paragraphs 109 to 113]			
The Board, as requested by the Governing Council, reviewed the two-year budget cycle concept. The Board considered that the study by UNDP had not been broad enough and recommended an extension of the experimental	ACABQ noted that it was perhaps too early to draw any firm conclusions and requested the Board to keep the matter under review.	The Committee endorsed the observations of ACABQ and the Board of Auditors.	The Administrator agreed with the observations of the Board of Auditors and ACC. The Administrator has authorized continuation of the experiment, taking into account reports received from

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period to cover a more representative proportion of field offices and executing agencies.			participating agencies and field offices.
VI. ACCOUNTING DELINEATION BETWEEN PROGRAMME, PROGRAMME SUPPORT AND OPERATING EXPENSES			
[Paragraph 53]			
The Board of Auditors indicated that the guidelines regarding project-funded posts at headquarters do not provide the means to stop increases in the number of project-funded posts at headquarters and, more importantly, to draw a clear line between project and operating expenditure.	ACABQ reiterated that project-funded posts at headquarters should be kept to a minimum if not altogether eliminated. The Committee also indicated its intention to pursue this issue in the context of its examination of the UNDP budget.	The Committee requested the Governing Council to require the Administrator to issue and implement comprehensive and specific guidelines in order to delineate appropriately programme expenditure, programme support and administrative expenditures.	This issue continues to be of serious concern to UNDP. The issue has been addressed in detail in the context of the strategy leading to formulation of the 1992-1993 budget. A presentation on this issue is included in the budget estimates for the biennium 1992-1993 (DP/1991/49 (vols. I and II)).
VII. CHARGING OF TEMPORARY ASSISTANCE POSTS			
[Paragraphs 114 to 116]			
The Board does not agree with the practice of charging to the established posts rather than to temporary assistance the costs of temporary personnel who replace personnel on established but vacant posts.	ACABQ agreed with the Board's view and noted that, as a result, temporary assistance costs are not revealed to the extent they are actually incurred. The Committee endorsed the Board's recommendation that temporary assistance costs should be represented as such in the budget as well as in the financial statements.	The Committee endorsed the recommendation of the Board of Auditors and ACABQ.	The Administrator considers that further discussions are necessary to clarify the appropriate reporting of temporary assistance costs with the Board of Auditors. The matter is to be discussed in depth with the Board. An oral report will be provided to the Governing Council at its thirty-eighth session.
VIII. SPECIAL SERVICE AGREEMENTS AND THE HIRING OF CONSULTANTS			
[Paragraphs 164 to 174]			
The Board indicated that Special Service Agreements were granted to full time workers who could not (then) be employed as regular staff members. It recommended that the traditional systems of contracts should be reviewed to fit current demands for flexibility.	ACABQ stated that the Board's comments reveal a practice of issuing Special Service Agreements in a manner that is tantamount to evading prescribed procedures. The Committee was not satisfied with the Administration's response to the Board's comments.	The Committee endorsed the observations and recommendations of the Board and ACABQ.	The Administration has completed a review of all Special Service Agreements used in the field as a framework against which to evaluate the traditional system of contracts. All contracts currently in use in UNDP are under review and

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			their redesign to fit current demands will be completed in 1991. As regards the use of Special Service Agreements for the hiring of consultants, this process is now tightly controlled and will be backed up by a programme of staff training and a manual of procedures.
	IX. TRUST FUNDS AND SUB-TRUST FUNDS		
[Paragraphs 120 to 123]			
The Board expressed its concern that the increase in the number of funds established will have an adverse effect on the efficiency of management. In addition, each additional trust fund increases the administrative workload and related costs.	ACABQ recommends that a mechanism be established to ensure that the administration and management of trust funds does not become too complex and costly; moreover, an appropriate reimbursement should be made from these funds to cover the increase in administrative workload.	The Committee endorsed the recommendations of the Board and ACABQ.	UNDP ensures that each trust fund agreement includes provision to cover its costs. These additional funds are managed as extrabudgetary resources for use by the field office, Regional Bureaux and Administration. While UNDP is of the opinion that its costs are covered, the matter is under review to see if it is possible to streamline its operations.
	X. PERSONAL RESPONSIBILITY AND FINANCIAL LIABILITY OF UNDP OFFICIALS		
[Paragraphs 137 to 152]			
The Board recommended that more detailed instruction be issued to all staff members regarding personal responsibility and liability of staff.	ACABQ agreed with the Board.	The Committee endorsed the recommendation of the Board and ACABQ and requested the Administrator to consider effective measures to facilitate reporting by staff members on a confidential basis on inappropriate use of resources.	The Administration issued a circular to all staff in August 1990 which addressed their responsibility and liability for the propriety of their actions. It set out those areas where there is a possibility of abuse and made provision for reporting of inappropriate activities to the Assistant Administrator of the Bureau for Finance and Administration. No write-off is approved without complete documentation regarding personal responsibility and liability.

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XI. FUNCTIONAL TITLE SYSTEM			
[Paragraphs 153-157]			
The Board noted that UNDP uses more than 1,300 functional titles for its staff in the Professional and L categories. The number of functional titles for staff in the General Service category has increased considerably in recent years. It suggested that UNDP review the title system with the objective of substantially reducing the number of functional titles.	ACABQ noted that for both categories of staff the Administration agreed with the findings and would review the situation.	The Committee did not discuss this matter specifically.	The issue of clarifying functional titles has been reviewed by the Administration. A revised titling system with controls and procedures has been developed. Revised titles will be issued in 1991.

Notes

1/ Official Records of the General Assembly, Forty-fifth Session, Supplement No. 5A (A/45/5/Add.1).

2/ A/45/570 and Corr.1.